UNIT 1.1



Introduction to Business Management

WHAT IS A BUSINESS?

An organization that **aims to meet consumer needs and wants**
Businesses **act in a commercial way** (selling goods/services for profit)

Four Factors of Production

1 Land
- Physical location for production
- E.g., factory site for a toy company

2 Labour
- Human effort in production
- E.g., workers assembling toys

3 Capital
- Equipment and tools for efficient production
- E.g., machines making toy parts

4 Enterprise
- The entrepreneur who combines the other factors
- E.g., founder of the toy company

Adding Value Through Production

- Inputs (land, labour, capital, enterprise) → used in the production process
- Output = finished goods/services
- Businesses add value by creating products worth more than the sum of their inputs
  - Value is added through usefulness, convenience, or quality





INPUTS

LAND, LABOUR, CAPITAL AND ENTEPRISE

VALUE ADDED



OUTPUTS

FINISHED GOODS

KEY BUSINESS FUNCTIONS



Human Resources Management (HRM)

- Manages staffing: recruitment, training, compensation
- Ensures employee motivation and talent retention
- Employer-employee relationship management

Finance

- Manages the business's money and budgeting
- Prepares financial statements and pays expenses
- Ensures sufficient working capital

Marketing

- Identifies target customers and their needs
- Conducts market research, pricing, and promotion
- Decides what to sell, to whom, and at what price

Operations Management

- Handles production and delivery of goods
- Focuses on efficiency and quality control

SECTORS OF THE ECONOMY



Primary Sector

- Extracts raw materials (e.g., farming, fishing)

Secondary Sector

- Manufactures goods (e.g., making cupcakes, toys)
- Produces final goods for consumers

Tertiary Sector

- Provides services (e.g., cinemas, hospitals)

Quaternary Sector

- Focuses on knowledge creation (e.g., scientific research)


1) PRIMARY SECTOR - Extraction of Raw Materials


2) SECONDARY SECTOR - Sale Of Finished Goods


3) TERTIARY SECTOR - Sale Of Services


4) QUARTERNARY SECTOR - Knowledge Generation

ENTREPRENEURS: WHO ARE THEY?

An entrepreneur is someone who starts a business with an idea
Takes on financial risk to combine factors of production for profit

Key skills: Leadership, Teamwork, Perseverance, Strong work ethic



Opportunities in starting a business

- Be your own boss and have autonomy
- Flexibility in schedule and decisions
- Pursue passion or interests

Challenges faced by entrepreneurs

- Limited resources:
  - Small marketing budgets
  - Lack of cash flow and sources of finance
  - Difficulty in hiring staff
- Must learn to prioritise due to resource constraints

UNIT 1.2



Types of Business Entities

PUBLIC VS PRIVATE SECTOR

PUBLIC



- Government-owned
- Provides essential services (e.g., healthcare, education)

PRIVATE



- Owned individually or by a group of individuals
- Usually aims to make a profit

FOR-PROFIT ORGANISATIONS: SOLE TRADERS

- **Owned and operated by one person**
- **Full control and decision-making power**
- **Keep 100% of profits**

Advantages:

- Quick decision making
- Simple to set up

Disadvantages:

- Unlimited liability – personal assets (e.g. house, car) at risk if the business fails
- Harder to raise funds alone



FOR-PROFIT ORGANISATIONS: PARTNERSHIPS

- **Owned and run by 2 or more people (partners)**
- **Governed by a deed of partnership (agreement on roles, profit sharing, etc.)**

Advantages:

- Combine different skills and expertise
- Easier to run than alone (e.g. specialist doctors working together to open a clinic)

Disadvantages:

- Unlimited liability – partners' personal assets are at risk
- Slower decision-making due to multiple owners



FOR-PROFIT ORGANISATIONS: CORPORATIONS

- **Legally incorporated businesses with limited liability**
- **Business has a separate legal identity**
- **Owned by shareholders (their risk is limited to their investment)**

PRIVATELY HELD COMPANIES



Advantages:

- Shares held by family/friends, not available to the public
- More control over ownership and operations

Disadvantages:

- Risk of takeover by larger firms
- Must pay legal and audit fees

PUBLICLY HELD COMPANIES



Advantages:

- Shares are traded on the stock market
- Can raise large amounts of finance from the public

Disadvantages:

- Less control – ownership is diluted
- Must publish financial results (less privacy)

SOCIAL ENTERPRISES

- **Aim to achieve a social or environmental mission**
- **Focus is not on generating profit for shareholders**
- **Can be for-profit or non-profit**

FOR-PROFIT SOCIAL ENTERPRISES



- Can exist in the public or private sector
- Can take any legal form (e.g. sole trader, partnership, corporation)
- Typically re-invest back into the business or to further the social mission

COOPERATIVES (A TYPE OF SOCIAL ENTERPRISE)



- Owned and run by members, for the benefit of members
- Example: Agricultural cooperative sharing best farming practices
- Limited financial upside makes it difficult for them to raise finance

NON-PROFIT SOCIAL ENTERPRISES

- **Aim to create community or social impact, not profit**
- **Still need to cover costs to sustain operations**
- **Do not operate commercially (don't sell goods/services for profit)**

Advantages:

- Often tax-exempt and eligible for government grants/subsidies
- Typically have a very strong reputation due to their impact

Challenges:

- May struggle to attract and retain employees
- Limited sources of finance (reliant on donations and grants)

Example: Non-Governmental Organisations (NGOs)

- Promote social causes/mission
- Aim to influence the behaviour of governments and businesses



UNIT 1.3



Business Objectives

MISSION VS VISION STATEMENTS



Mission Statement = Present Purpose

- Defines organisation's purpose: what it does and why
- Communicates core values & primary goals
- Guides managerial decisions to align with purpose

Vision Statement = Future Direction

- Describes long-term aspirations: who the firm wants to be / where it wants to go
- Inspires and motivates employees
- Broader and more flexible than a mission statement



Mission statement

Refers to the organisation's purpose for existence. It highlights the firm's core values and serves as a guiding principle in decision making

Focus	Who are we / what is our business?
Orientation	Focused on the present
Purpose	Guiding principles for how the firm operates

Vision statement

Refers to organisation's aspirations of where they want to be in the future. This helps in setting long-term objectives.

Focus	What do we want to become?
Orientation	Focused on the very long-term
Purpose	Communicate the ideal future state of the firm

Examples

	Mission Statement	Vision Statement
IKEA	Offer a range of well-designed, functional home furnishing products at prices so that as many people as possible can afford them	To create a better everyday life for as many people as possible
BBC	To enrich people's lives with programmes and services that inform, educate and entertain	To be the most creative organisation in the world

BUSINESS OBJECTIVES

What a firm wants to achieve (short, medium, or long-term)

SMART Criteria: **S**pecific, **M**easurable, **A**chievable, **R**ealistic, **T**ime-bound

- Purpose: Provide direction and set business priorities

Types of Objectives:

- **Strategic:** Long-term goals guiding overall direction (e.g., expand overseas)
- **Tactical:** Short-term actions supporting strategic goals (e.g., market research, customer interviews)
- **Key Point:** Tactical objectives break down strategic objectives into actionable steps





COMMON BUSINESS OBJECTIVES



Growth

- Increase size via revenue, customers, or employees
- Benefits: Risk spreading, stronger brand, better access to finance

Profit

- Revenue minus costs → key for survival
- Core measure of financial success

Increase Shareholder Value

- Raise company value and share price
- Pay dividends when profits allow
- Closely linked to growth and profit

Ethical Objectives

- Moral/social/environmental goals (e.g., fair treatment of staff, sustainability, community investment)
- Improves reputation but can raise costs

CORPORATE SOCIAL RESPONSIBILITY (CSR)

A business's obligation to go beyond legal requirements to act ethically toward employees, customers, community, and the environment

Examples:

- Use recyclable/sustainable materials
- Provide better working conditions & paid time off
- Donate or engage with local communities

Benefits:

- Improves reputation and brand image
- Builds customer loyalty and employee satisfaction

Challenges:

- High financial cost → may lower profits
- Less differentiation as CSR becomes standard practice

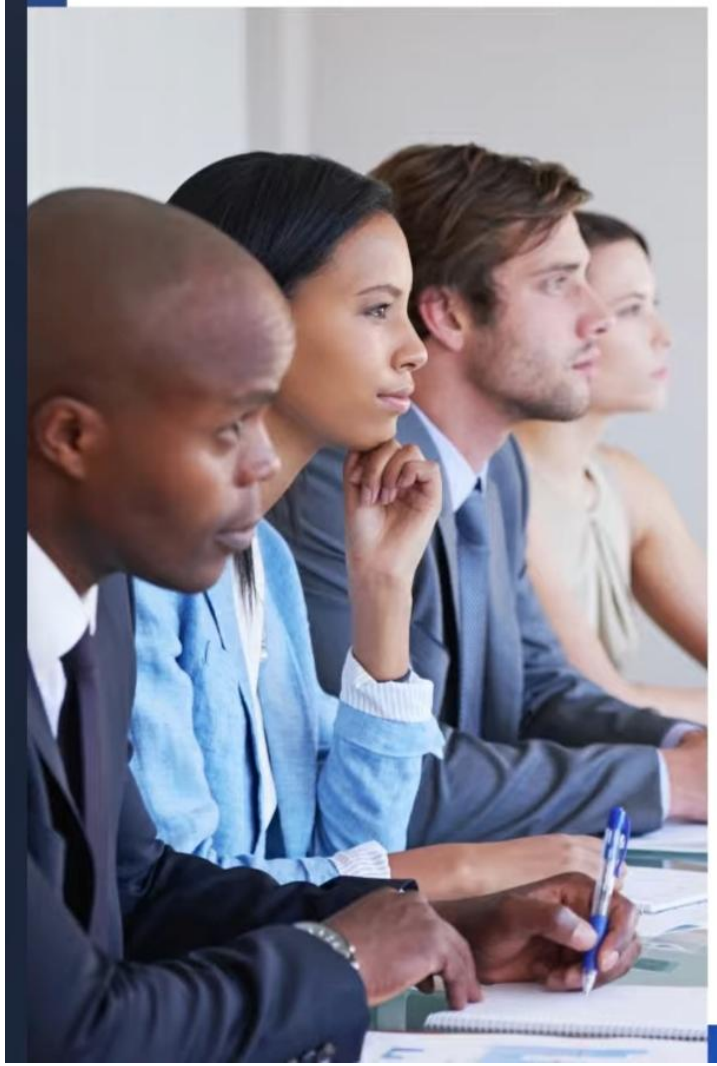


UNIT 1.4



Stakeholders

WHAT ARE STAKEHOLDERS?



Stakeholders = Anyone with a direct interest in the business

- Important distinction:
  - **Shareholders** = owners of the business
  - **Stakeholders** = all interested parties (including shareholders)

Internal Stakeholders

- Employees
  - Care about pay and working conditions
- Managers
  - Focus on pay and business direction
- Shareholders
  - Care about returns on investment

EXTERNAL STAKEHOLDERS

Have a direct interest in the business but are not part of it

Key External Stakeholders

- **Customers** – Care about price, quality, and influence strategy
- **Suppliers** – Want to be paid on time for goods/materials
- **Competitors** – Watch firm's actions to adjust their own strategies
- **Local community** – Want socially responsible operations
- **Pressure groups** – Try to influence business practices

Other External Stakeholders

- **Financiers (e.g. banks)** – Concerned about loan repayment
- **Government** – Enforces laws, expects tax compliance







STAKEHOLDER CONFLICT

Stakeholders have different objectives, leading to conflict



Examples of Conflicts:

- Shareholders want higher dividends → Less money for reinvestment
- Employees want higher wages → Raises business costs, may affect prices
- Managers may invest in automation → Could result in job losses

Stakeholder Mapping

- Helps businesses prioritise stakeholders
- High interest + high influence = Top priority







UNIT 1.5



Growth and Evolution

ECONOMIES OF SCALE

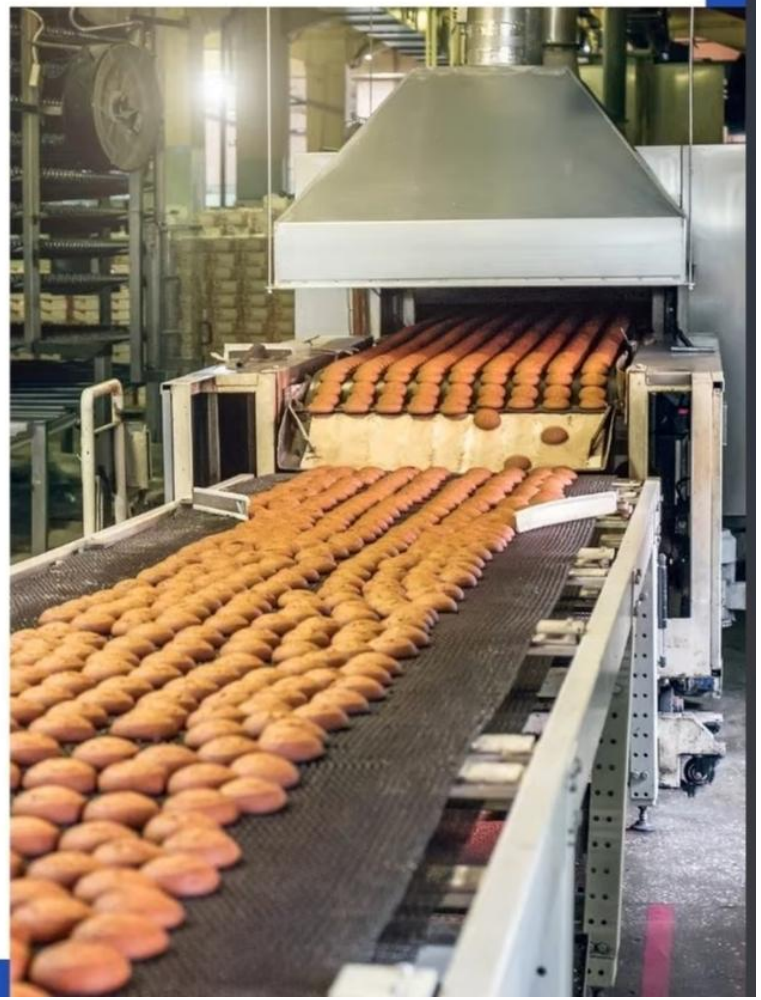
Occurs when average cost per unit decreases as output increases

Important: Total cost rises, but average cost falls

- Types of economies of scale:
  - **Internal** – specific to the business (e.g. bulk buying discounts)
  - **External** – affects all firms (e.g. improved infrastructure)
- Be able to identify and explain types using case info

Diseconomies of Scale

- Occurs when average cost increases as output increases
- Both total cost and average costs rise
- Types:
  - **Internal** – e.g. coordination/control issues in large firms
  - **External** – e.g. labour shortages raising wages for all businesses



A Reminder of How to Calculate Unit Costs

Average cost per unit is calculated using:

$$\frac{\text{Total production costs in period (£)}}{\text{Total output in period (units)}}$$

Example of How Costs Change with Output

Fixed costs *are £10,000 and* ***Variable costs*** *are £100 per unit*

Output	Fixed Costs	Total Variable Costs	Total Costs	Cost per Unit
Units	£	£	£	£
50	**10,000**			
100	**10,000**			
150	**10,000**			
200	**10,000**			
250	**10,000**			

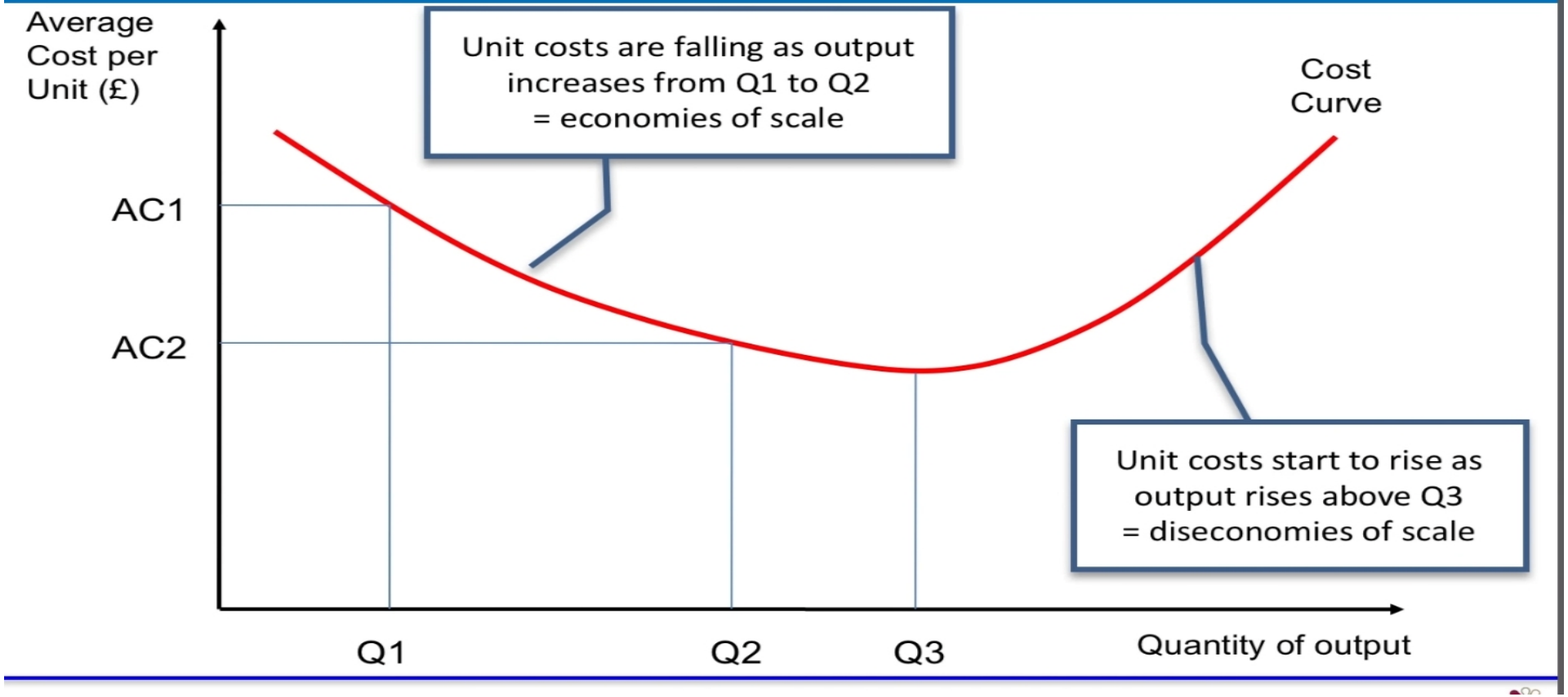
Example of How Costs Change with Output

Fixed costs *are £10,000 and* ***Variable costs*** *are £100 per unit*

Output	Fixed Costs	Total Variable Costs	Total Costs	Cost per Unit
Units	£	£	£	£
50	10,000	5,000	15,000	**300**
100	10,000	10,000	20,000	**200**
150	10,000	15,000	25,000	**166**
200	10,000	20,000	30,000	**150**
250	10,000	25,000	35,000	**140**



Economies of Scale Illustrated



WHAT ARE DISECONOMIES OF SCALE?

Diseconomies of scale occur when a **business grows too large**, causing its average costs to increase rather than decrease. They result from inefficiencies (**decreasing returns**) as firms expand **beyond their optimal size**.

Diseconomies of scale mean that:

- Businesses are suffering from a loss of **productive efficiency** perhaps because of **organisational slack**
- Lost cost and price competitiveness could lead to **declining market share** and a **fall in the share price** if the business is floated on the stock market.
- Many businesses now face threats from **challenger brands** – so diseconomies of scale can be a long-term risk to their market position and profitability
- Diseconomies of scale lead to pressure from **activist shareholders** to downsize, outsource, or perhaps **restructure via a demerger**

WHAT ARE THE MAIN CAUSES OF DISECONOMIES OF SCALE?

Managerial Inefficiencies:

- Harder to coordinate and communicate in large firms – multiple management layers
- Slower decision-making and risk averse behaviour – Increased costs of bureaucracy.

Worker Demotivation:

- Employees may feel alienated in a large, impersonal company.
- Lower motivation → lower labour productivity – leads to higher unit labour costs

Logistical Issues:

- Complex supply chains and internal logistics.
- Increased costs for transportation, storage, etc.

Compliance and Legal Costs:

- Larger firms may face more regulations and scrutiny.

WHY DO BUSINESSES WANT TO GROW?



Benefits of being large:

- Economies of scale
- Better access to finance and talent
- Increased brand recognition

Some firms prefer to stay small:

- More independence in decision-making
- Closer relationships with customers

Key Point

- Bigger is not always better — it depends on the firm's goals and context

BUSINESS GROWTH: INTERNAL VS EXTERNAL



Internal Growth

- Growth using the firm's own resources
- Slower, but less risky and less costly
- Examples:
  - Launching a new product
  - Expanding into a new market

External Growth

- Growth with help from a third-party
- Faster, but more risky and more expensive
- Examples:
  - Partnerships
  - Mergers or acquisitions

Key Distinction

- Based on whether the business grows with or without a third-party

MERGERS & ACQUISITIONS (M&A)

Acquisition: One firm buys >50% of another firm's shares
Merger: Two firms of similar size combine into one entity

✅ Advantages of M&As

- Fastest growth method
- Helps enter new markets, gain new products
- Benefit from economies of scale

❌ Disadvantages of M&As

- Often expensive and high risk
- Risk of culture clashes or management conflict
- Possible job losses for employees



Mergers and Acquisitions



Sprint

T-Mobile

amazon

WHOLE FOODS MARKET

CHRYSLER

FIAT

Google

YouTube

Business School 101
Dr. Yang & Company

RECENT EXAMPLES OF DE-MERGERS

Unilever – Ice Cream Division Spin-Off (Planned for 2025)

- Unilever announced plans to demerge its ice cream business, which includes popular brands like Ben & Jerry's, Magnum, and Cornetto.

GSK – Consumer Healthcare Division (2022)

- GSK demerged its Consumer Healthcare business to form Haleon plc, an independent company focusing on consumer health products. This strategic move allowed GSK to concentrate on pharmaceuticals and vaccines.

Tata Motors (India) – Commercial vs Passenger Vehicles (2024)

- In 2024, Tata Motors announced a demerger to split its commercial vehicle (CV) and passenger vehicle (PV) businesses into two separate listed companies.

STRATEGIC ALLIANCES VS JOINT VENTURES

Strategic Alliance

- Partnership without forming a new legal entity
- Narrower scope, usually short or medium-term

✅ Share resources, costs, and expertise

❌ Easy to exit, but may face strategy disagreements

Joint Venture (JV)

- New legal entity is created
- Tends to be a broader, longer-term partnership

✅ Useful for expanding into new markets

❌ One partner's actions can impact the other

Key Difference

Strategic alliance = no new company

Joint venture = new company formed



A Joint Venture (JV) is a business agreement where two or more parties (usually companies) agree to pool their resources for a specific project or purpose.





Joint ventures are often formed to combine expertise, access new markets, or share the costs of large-scale projects.

SONY ERICSSON

Sony Ericsson







Business School 101
Dr. Yang & Company

FRANCHISING

Franchisor gives franchisee the right to use its name/products

Pros and cons for franchisor

✅ Low-cost, fast expansion
✅ Gains economies of scale and royalty payments
❌ Harder to maintain quality and consistency

Pros and cons for franchisee

✅ Receives support and training (e.g. marketing, staff)
✅ Joins a proven brand with existing customer base
❌ Limited control as there is less creativity and decision-making power



UNIT 1.6



Multinational Companies

MULTINATIONAL COMPANIES (MNCS)



MNCS are businesses that operate in more than one country

Why do firms become multinational?

- Access a larger customer base
- Benefit from economies of scale
- Gain cost advantages by operating in countries with lower wages and fewer regulations

IMPACT OF MNCS ON HOST COUNTRIES



Positive Impacts

✅ Job creation and skill development
✅ Boosts the local economy through supplier purchases
✅ Generates tax revenue for the government

Negative Impacts

❌ Increases competition for local businesses
❌ May exploit weak labour/environmental laws
❌ Can influence government policy to benefit themselves

Key Point

MNCs bring economic benefits, but with trade-offs